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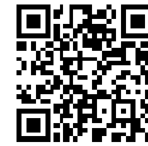

THE ROLE OF ECONOMICAL DEVELOPMENT IN INDIAN MARKET AN INDIAN PROSPECTIVE

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Abstract:

Managerial economics is the application of the economic concepts and economic analysis to the problems of formulating rational managerial decisions". It is sometimes referred to as business economics and is a branch of economics that applies microeconomic analysis to decision methods of businesses or other management units. As such, it bridges economic theory and economics in practice. It draws heavily from quantitative techniques such as regression analysis, correlation and calculus. If there is a unifying theme that runs through most of managerial economics, it is the attempt to optimize business decisions given the firm's objectives and given constraints imposed by scarcity, for example through the use of operations research, mathematical programming, game theory for strategic decisions, and other computational methods.

KEYWORDS:

Economical Development , Indian Market , Managerial economics , economic analysis .

INTRODUCTION

One standard definition for economics is the study of the production, distribution, and consumption of goods and services. A second definition is the study of choice related to the allocation of scarce resources. The first definition indicates that economics includes any business, nonprofit organization, or administrative unit. The second definition establishes that economics is at the core of what managers of these organizations do.

This book presents economic concepts and principles from the perspective of "managerial economics," which is a subfield of economics that places special emphasis on the choice aspect in the second definition. The purpose of managerial economics is to provide economic terminology and reasoning for the improvement of managerial decisions.

Most readers will be familiar with two different conceptual approaches to the study of economics: microeconomics and macroeconomics. Microeconomics studies phenomena related to goods and services from the perspective of individual decision-making entities—that is, households and businesses. Macroeconomics approaches the same phenomena at an aggregate level, for example, the total consumption and production of a region. Microeconomics and macroeconomics each have their merits. The microeconomic approach is essential for understanding the behavior of atomic entities in an economy. However, understanding the systematic interaction of the many households and businesses would be too complex to derive from descriptions of the individual units. The macroeconomic approach provides measures and theories to understand the overall systematic behavior of an economy.

Since the purpose of managerial economics is to apply economics for the improvement of managerial decisions in an organization, most of the subject material in managerial economics has a

microeconomic focus. However, since managers must consider the state of their environment in making decisions and the environment includes the overall economy, an understanding of how to interpret and forecast macroeconomic measures is useful in making managerial decisions.

Economic principles assist in rational reasoning and defined thinking. They develop logical ability and strength of a manager. Some important principles of managerial economics are:

IMPORTANT PRINCIPLES OF MANAGERIAL ECONOMICS

1.Marginal and Incremental Principle

This principle states that a decision is said to be rational and sound if given the firm's objective of profit maximization, it leads to increase in profit, which is in either of two scenarios-

If total revenue increases more than total cost.
If total revenue declines less than total cost.

Marginal analysis implies judging the impact of a unit change in one variable on the other. Marginal generally refers to small changes. Marginal revenue is change in total revenue per unit change in output sold. Marginal cost refers to change in total costs per unit change in output produced (While incremental cost refers to change in total costs due to change in total output). The decision of a firm to change the price would depend upon the resulting impact/change in marginal revenue and marginal cost. If the marginal revenue is greater than the marginal cost, then the firm should bring about the change in price.

Incremental analysis differs from marginal analysis only in that it analysis the change in the firm's performance for a given managerial decision, whereas marginal analysis often is generated by a change in outputs or inputs. Incremental analysis is generalization of marginal concept. It refers to changes in cost and revenue due to a policy change. For example - adding a new business, buying new inputs, processing products, etc. Change in output due to change in process, product or investment is considered as incremental change. Incremental principle states that a decision is profitable if revenue increases more than costs; if costs reduce more than revenues; if increase in some revenues is more than decrease in others; and if decrease in some costs is greater than increase in others.

2.Equi-marginal Principle

Marginal Utility is the utility derived from the additional unit of a commodity consumed. The laws of equi-marginal utility states that a consumer will reach the stage of equilibrium when the marginal utilities of various commodities he consumes are equal. According to the modern economists, this law has been formulated in form of law of proportional marginal utility. It states that the consumer will spend his money-income on different goods in such a way that the marginal utility of each good is proportional to its price, i.e.,

$$MUx / Px = MUy / Py = MUz / Pz$$

Where, MU represents marginal utility and P is the price of good.
Similarly, a producer who wants to maximize profit (or reach equilibrium) will use the technique of production which satisfies the following condition:

$$MRP1 / MC1 = MRP2 / MC2 = MRP3 / Mc3$$

Where, MRP is marginal revenue product of inputs and MC represents marginal cost.

Thus, a manger can make rational decision by allocating/hiring resources in a manner which equalizes the ratio of marginal returns and marginal costs of various use of resources in a specific use.

3.Opportunity Cost Principle

By opportunity cost of a decision is meant the sacrifice of alternatives required by that decision. If there are no sacrifices, there is no cost. According to Opportunity cost principle, a firm can hire a factor of production if and only if that factor earns a reward in that occupation/job equal or greater than it's opportunity cost. Opportunity cost is the minimum price that would be necessary to retain a factor-service in it's given use. It is also defined as the cost of sacrificed alternatives. For instance, a person chooses to forgo his present lucrative job which offers him Rs.50000 per month, and organizes his own business. The

opportunity lost (earning Rs. 50,000) will be the opportunity cost of running his own business.

4.Time Perspective Principle

According to this principle, a manger/decision maker should give due emphasis, both to short-term and long-term impact of his decisions, giving apt significance to the different time periods before reaching any decision. Short-run refers to a time period in which some factors are fixed while others are variable. The production can be increased by increasing the quantity of variable factors. While long-run is a time period in which all factors of production can become variable. Entry and exit of seller firms can take place easily. From consumers point of view, short-run refers to a period in which they respond to the changes in price, given the taste and preferences of the consumers, while long-run is a time period in which the consumers have enough time to respond to price changes by varying their tastes and preferences.

5.Discounting Principle

According to this principle, if a decision affects costs and revenues in long-run, all those costs and revenues must be discounted to present values before valid comparison of alternatives is possible. This is essential because a rupee worth of money at a future date is not worth a rupee today. Money actually has time value. Discounting can be defined as a process used to transform future dollars into an equivalent number of present dollars. For instance, $1 invested today at 10% interest is equivalent to $1.10 next year.

$FV = PV*(1+r)^t$

Where, FV is the future value (time at some future time), PV is the present value (value at t0, r is the discount (interest) rate, and t is the time between the future value and present value.

Demand and Pricing

Decisions related to demand and pricing are usually called marketing decisions. Marketing is an established profession and an applied academic discipline with a large body of literature. However, economic reasoning and concepts provide much of the theoretical foundation for marketing practice. In this chapter, we will address these elements from the perspective of economics.

CONCLUSION

Managerial economics as a science is useful to managers in making decisions relating to a firm's customer's base, competitors and strategic future decisions. A lot of mathematical concepts especially statistics and analytical tools are required because of the probabilistic nature of future decisions that the firm wants to make. Most people might ask the questions why study managerial economics while one can make decisions based on past data. It is a genuine question but it is not possible to make a conclusion merely on the bases of prior data because of the dynamic nature of the current market. We have seen a lot of unexpected events that have happened in the past that we never expected. One is the crash of major banks in the US and the current crisis in Greece. Based on these examples it is now clear that we need an approach like managerial economics which will not only take into consideration the prior data but will allow us to include future risks in the posterior data.

Managerial economics helps the manager or the group/ groups of people making the decisions to increase their problem analytics skills as well as formulation solution to probabilistic problems. The main differences between managerial economics and the other branches of economics such as macro and micro economics is that. Micro economics involves the allocation of scarce resources on household level. Macro economics involve the study of economics as a whole. While managerial economics applies the tools learnt in these branches to come up with viable business ideas. Managerial economics is very broad and is not only used in decisions making for profit making organization but also useful to non-profit making organizations in the proper utilization of their scarce resources. The concept of management economics is also very useful in price determination, long term capital budgeting, and insights into the demands of a commodity.

Different schools of thought have suggested that managerial economics use the concepts of economics theory that differ from the fact that managerial economics is a combination of both economics theory and econometrics in making decisions. Econometrics is the use of statistical tools such as statistical packages and theories to experimentally measure the relationship that exist between economics variables. Its main advantage is that it uses factual data to model different scenarios.

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